

**BEFORE THE  
PUBLIC UTILITIES COMMISSION  
OF RHODE ISLAND**

<b>THE NARRAGANSETT</b>	)	<b>DOCKET NO. 3483</b>
<b>BAY COMMISSION</b>	)	

**SURREBUTTAL TESTIMONY  
OF  
THOMAS S. CATLIN**

**ON BEHALF OF THE  
DIVISION OF PUBLIC UTILITIES AND CARRIERS**

**MARCH 2003**

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**EXETER**

**ASSOCIATES, INC.**  
12510 Prosperity Drive  
Suite 350  
Silver Spring, Maryland 20904

BEFORE THE  
PUBLIC UTILITIES COMMISSION  
OF RHODE ISLAND

THE NARRAGANSETT	)	DOCKET NO. 3483
BAY COMMISSION	)	

Surrebuttal Testimony of Thomas S. Catlin

1     Q.           WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS  
2                   ADDRESS?

3     A.     My name is Thomas S. Catlin. I am a principal with Exeter Associates, Inc. Our offices  
4           are currently located at 12510 Prosperity Drive, Silver Spring, Maryland, 20904.  
5           Effective March 31, 2003, our offices will be moving to 5565 Sterrett Place, Suite 310,  
6           Columbia, Maryland 21044. Exeter is a firm of consulting economists specializing in  
7           issues pertaining to public utilities.

8     Q.           HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS DOCKET?

9     A.     Yes, my direct testimony on behalf of the Division of Public Utilities and Carriers (the  
10          Division) was filed on March 5, 2003. My qualifications and experience are summarized  
11          in that testimony.

12    Q.           WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

13    A.     The purpose of my surrebuttal testimony is to respond to the rebuttal testimony of Mr.  
14          Water E. Edge on behalf of The Narragansett Bay Commission (NBC) with regard to bad  
15          debt expense. I will also update the Division's recommendation with regard to the rate  
16          increase to which NBC is entitled.

1 Q. WHAT COMMENTS DO YOU HAVE WITH REGARD TO THE  
2 APPROPRIATE LEVEL OF BAD DEBT EXPENSE?

3 A. In this case, I have proposed to adjust NBC's allowance for bad debt expense from the  
4 test year level of \$206,109 to what was identified by NBC in discovery as the normalized  
5 ongoing level of expense. In his rebuttal, Mr. Edge takes the position that the appropriate  
6 allowance is \$206,109 and that this allowance is consistent with my recommendation on  
7 behalf of the Division in NBC's last general rate case at Docket No. 3162.

8 I would like to clarify that in the last case, I noted that an appropriate procedure  
9 would be to base the allowance for bad debt on a historical year average. However, to be  
10 conservative, I used the actual test year bad debt expense which was higher than the  
11 historical average for three, four or five years. I continue to believe that the use of a  
12 several year average is the appropriate basis on which to establish the allowed level of  
13 bad debt expense for ratemaking in most circumstances. Nevertheless, again in this case,  
14 I have recommended an allowance for bad debt expense, which is above the historical  
15 average. I did so based on current economic conditions and changes in NBC's  
16 procedures for collecting and writing off bad debt.

17 I agree that the supplemental response to Division 1-24 on which I relied does  
18 indicate that NBC expects to have bad debts in excess of \$120,000 per year as noted by  
19 Mr. Edge. However, in determining the rate year allowance for bad debt expense, it must  
20 also be recognized that the rates established in this proceeding are likely to be in effect  
21 for three years if the proposal to utilize TECP financing is approved. Under those  
22 circumstances, I am concerned that the test year level of bad debt expense is not likely to  
23 be representative of a normal level of expense on an ongoing basis.

1           In his rebuttal, Mr. Edge notes that actual write-offs in NBC's current fiscal year  
2           are \$136,479 through mid-March. The supplemental response to Division 1-24 indicates  
3           that current fiscal year write-offs were \$131,577 through December. This suggests that  
4           write-offs have stabilized somewhat. That response also notes that potential write-offs  
5           for calendar year 2003 of \$172,000 have been identified, including \$148,000 for one  
6           large customer. Based on this information, I would propose that an allowance for bad  
7           debt of \$160,000 be adopted as a reasonable estimate.

8   Q.           DO YOU HAVE ANY OTHER COMMENTS WITH REGARD TO MR.  
9           EDGE'S REBUTTAL TESTIMONY?

10 A.          Yes. I have reviewed Mr. Edge's rebuttal testimony with regard to employee vacancies  
11          or turnover. Based on the additional information provided on employee levels, I am  
12          prepared to accept his recommended changes to the adjustments to salaries and wages  
13          and payroll related expense which I incorporated in my direct testimony.

14 Q.           HAVE YOU PREPARED UPDATED SCHEDULES SUMMARIZING YOUR  
15           FINDINGS WITH REGARD TO NBC'S COST OF SERVICE AND THE  
16           APPROPRIATE RATE INCREASE?

17 A.          Yes. My updated schedules accompany this testimony. For convenience, I have included  
18          a complete set of Schedules TSC-1 through TSC-13 even though many of these schedules  
19          did not change from those accompanying my direct testimony. As indicated on updated  
20          Schedule TSC-1, I have determined NBC's overall cost of service to be \$52,023,046.  
21          This represents an increase over revenues at present rates of \$7,571,833. In developing  
22          these figures, I have included Mr. Stearns' revised recommendation with regard to  
23          electricity costs as presented in his surrebuttal testimony as well as my revised

1            recommendations with regard to bad debt expense, salaries and wages and payroll related  
2            expenses.

3    Q.            DOES THIS COMPLETE YOUR SURREBUTTAL TESTIMONY?

4    A            Yes, it does.

THE NARRAGANSETT BAY COMMISSION

Summary of Revenues and Expenses at  
Present and Proposed Rates  
Rate Year Ended June 30, 2004

	Rate Year Amount Per NBC	Division Adjustments	Rate Year at Present Rates	Allowable Rate Increase	Rate Year at Proposed Rates
<b><u>Revenue</u></b>					
User Fee Revenue	\$ 41,672,033	\$ -	\$ 41,672,033	\$ 7,218,681	\$ 48,890,714
Other Service Revenue	2,038,980	-	2,038,980	353,151	2,392,131
Miscellaneous	740,200	-	740,200		740,200
Total Revenue	\$ 44,451,213	\$ -	\$ 44,451,213	\$ 7,571,833	\$ 52,023,046
<b><u>Expenses</u></b>					
Personnel Services	14,886,459	(382,552)	14,503,907	-	14,503,907
Operating Supplies & Expenses	9,148,525	(252,881)	8,895,644	-	8,895,644
Special Services	2,571,851	(320,998)	2,250,853	-	2,250,853
Capital Outlays	-	-	-	-	-
Amortization	9,690		9,690	-	9,690
Debt Service	25,524,784	(3,614,896)	21,909,888	-	21,909,888
Carry Forward from 2003	(2,025,910)	-	(2,025,910)	-	(2,025,910)
Debt Coverage	7,300,819	(1,206,748)	6,094,072	-	6,094,072
Total Expenses	\$ 57,416,218	\$ (5,778,074)	\$ 51,638,144	\$ -	\$ 51,638,144
Operating Reserve	861,243	(476,342)	384,901	-	384,901
Total Cost of Service	\$ 58,277,461	\$ (6,254,416)	\$ 52,023,046	\$ -	\$ 52,023,046
Revenue Surplus/(Deficiency)	\$ (13,826,248)	\$ 6,254,416	\$ (7,571,833)	\$ 7,571,833	\$ -

THE NARRAGANSETT BAY COMMISSION

Summary of Division Adjustments to  
Rate Year Revenues and Expenses at Present Rates  
Rate Year Ending June 30, 2004

Description	Amount	Source
Salaries & Wages-Actual Employees	(187,874)	Schedule TSC-3
Payroll Related Expenses and Taxes	(72,016)	Schedule TSC-4
Worker's Comp-Old Claims	(102,662)	Schedule TSC-5
Granted Funded Personnel Costs	(20,000)	Schedule TSC-6
Field's Point Sludge Disposal Costs	(13,686)	Schedule TSC-7
Bad Debt Expense	(46,109)	Schedule TSC-8
Management/Audit Services Expense	(320,998)	Schedule TSC-9
Debt Service Expense	(3,614,896)	Schedule TSC-10
Coverage Expense	(1,206,748)	Schedule TSC-10
Electric Power Expense	(193,086)	Exhibit DS S-1
Operating Reserve	(476,342)	Refer to Testimony
Total Expense Adjustments	<u>\$ (6,254,416)</u>	

THE NARRAGANSETT BAY COMMISSION

Adjustment to Salaries &Wages  
to Reecognize Actual Employee Levels  
Rate Year Ending June 30, 2004

Actual Employee Count (1)	245.8
Employees Included in Rate Year Company Claim (2)	<u>250</u>
Vacant Positions	4.2
Average Salary per Employee (3)	<u>\$ 44,732</u>
Adjustment to Salaries and Wages	<u><u>\$ (187,874)</u></u>

Notes:

- (1) Per response to DIV 1-11. Reflects full time equivalents (FTE) as of October-December 2002. Excludes 2 FTE on long-term Worker's Compensation to be consistent with targeted employee level.
- (2) Per response to DIV 1-8. Excludes employees for STAR Program.
- (3) Based on rate year salaries if \$11,183,080 per Schedule WEE-7 divided by 250 FTE employees.



THE NARRAGANSETT BAY COMMISSION

Adjustment to Payroll Related Expenses  
to Reflect Adjustment to Salaries and Wages  
Rate Year Ending June 30, 2004

**Salary Based Benefits (1)**

FICA-Composite Rate	7.49%
Pension Contribution-Composite Rate	9.83%
Health & Disability-Composite Rate	<u>0.75%</u>
Combined Benefits Percentage	18.07%
Division Adjustment to Salaries and Wages	<u>\$ (187,874)</u>
Adjustment to Rate Year Expense	\$ (33,949)

**Employee Count Based Benefits (2)**

Health, Dental and Vision Cost per Employee	\$ 9,064
Division Adjustment to Number of Employees	<u>(4.2)</u>
Adjustment to Rate Year Expense	<u>\$ (38,067)</u>
<b>Total Adjustment to Rate Year Wage Related Expense</b>	<u><u>\$ (72,016)</u></u>

Notes:

- (1) Based on the rate year ratios of applicable total expense for union and non-union employees to total rate year salaries and wages per Schedule WEE-7.
- (2) Based on the rate year Health, Dental and Vision premiums per Schedule WEE-8 divided by 250 employees.

THE NARRAGANSETT BAY COMMISSION

Adjustment to Annualize Worker's Compensation-Old Claims  
Rate Year Ending June 30, 2004

Annualized Worker's Comp-Old Claims (1)	\$ 50,000
Amount per NBC Filing (2)	<u>152,662</u>
Adjustment to Rate Year Expense	<u><u>\$ (102,662)</u></u>

Notes:

(1) Per informal follow-up response to Division 1-18.

(2) Per Schedule WEE-4.

THE NARRAGANSETT BAY COMMISSION

Adjustment to Recognize Grant Funded Personnel Costs  
Rate Year Ending June 30, 2004

Rate Year Grant Funding of Wages & Benefits (1)	\$ 20,000
Amount per NBC Filing (1)	<u>-</u>
Adjustment to Rate Year Expense	<u><u>\$ (20,000)</u></u>

Notes:

(1) Per response to DIV 1-9.

THE NARRAGANSETT BAY COMMISSION

Adjustment to Sludge Handling Expense  
at Field's Point Treatment Facility  
Rate Year Ending June 30, 2004

	Usage (1) (Wet Tons)	Rate (2) (per WT)	Expense
Ash Disposal	1,929	\$ 16.00	\$ 30,864
Sludge Disposal	2,619	\$ 53.00	138,825
Hauling Fee	2,608	\$ 18.60	48,509
Liquid Sludge	6.85	\$ 475.00	<u>3,254</u>
Total Disposal Costs			\$ 221,451
Amount per NBC Filing (2)			<u>235,137</u>
Adjustment to Rate Year Expense			<u><u>\$ (13,686)</u></u>

Notes:

(1) Reflects average of wet tons for FY 2000 through FY 2002 per the responses to DIV 1-22 in current proceeding and Division 1-42 in Docket No. 3162.

(2) Per Schedule WEE-9.

THE NARRAGANSETT BAY COMMISSION

Adjustment to Bad Debt Expense to  
Reflect Normalized Write-Offs  
Rate Year Ending June 30, 2004

<u>Fiscal Year</u>	<u>Accounts Written Off (1)</u>	<u>Bad Debt per Audit (1)</u>
1998	80,196	80,196
1999	31,087	79,007
2000	26,858	(53,096)
2001	46,066	(6,353)
2002	<u>221,760</u>	<u>206,109</u>
Average 1998-2002	\$ 81,193	\$ 61,173
Average 2000-2002	\$ 98,228	\$ 48,887
Normalized Expense Based on Recent Experience (2)		\$ 160,000
Amount per NBC Filing (3)		<u>206,109</u>
Adjustment to Rate Year Expense		<u><u>\$ (46,109)</u></u>

Notes:

- (1) Per the responses to DIV 1-24 in current proceeding and Division 1-43 in Docket No. 3162.
- (2) Per follow-up response to DIV 1-24.
- (3) Per Schedule WEE-4.

THE NARRAGANSETT BAY COMMISSION

Adjustment to Management/Audit Services Expense  
Rate Year Ending June 30, 2004

Management/Audit Services Expense per Company Filing (1)	\$ 1,740,171
Less: Adjustment to Normalize Job Assessment Study (2)	(13,333)
Less: Adjustment to U.S. Filter Fee for Updated CPI (3)	(17,665)
Less: Storm Water Rate Study (4)	<u>(290,000)</u>
Adjusted Other Repairs Expense	\$ 1,419,173
Management/Audit Services Expense per Company Filing (1)	<u>\$ 1,740,171</u>
Adjustment to Rate Year Expense	<u><u>\$ (320,998)</u></u>

Notes:

- (1) Per Schedule WEE-20.
- (2) Reflects normalization of study costs of \$20,000 over 3 years, consistent with the frequency of such studies and the amortization period for rate case expense.
- (3) Refer to Page 2 of this schedule.
- (4) Reflects elimination of amount per Schedule WEE-20.

THE NARRAGANSETT BAY COMMISSION

Calculation of U.S. Filter Fee to Reflect  
Updated Projection of Consumer Price Index  
Rate Year Ending June 30, 2004

April 1, 1999 Base Consumer Price Index (1)	166.2
Projected April 1, 2003 Consumer Price Index (2)	<u>182.4</u>
Multiplier Applicable to Base Annual Fee	<u><u>1.09747</u></u>
Base Annual Fee (1)	\$ 1,276,172
Multiplier	<u>1.09747</u>
Gross U.S. Filter Fee	\$ 1,400,560
Grit Deduction (1)	<u>(56,404)</u>
U.S. Filter FY 2004 Fee	\$ 1,344,156
Rate Year U.S. Filter Fee per NBC Filing (3)	<u>1,361,821</u>
Adjustment to Rate Year Expense	<u><u>\$ (17,665)</u></u>

Notes:

(1) Per response to Division I-28.

(2) Based on January 31, 2003 CPI-U of 181.7 adjusted to reflect 2 months growth at Blue Chip Economic Indicators February 2003 consensus forecast rate of 2.3% for 2003.

(3) Per Schedule WEE-20.

THE NARRAGANSETT BAY COMMISSION

Adjustment to Debt Service and Coverage Allowance  
to Reflect Two Year Average Debt Service for FY 2004 & 2005  
Using Tax Exempt Commercial Paper and Mid-Year Convention  
Rate Year Ending June 30, 2004

<b><u>Debt Service</u></b>	<b><u>Annual Expense</u></b>
Total Payments for 2004 (1)	\$ 19,443,490
Total Payments for 2005 (1)	<u>24,376,286</u>
Two Year Total	\$ 43,819,776
Two Year Average	\$ 21,909,888
Amount per NBC Filing (2)	<u>25,524,784</u>
Adjustment to Debt Service Expense	<u><u>\$ (3,614,896)</u></u>
 <b><u>Coverage Allowance</u></b>	
Coverage Allowance (1)	\$ 6,094,072
Amount per Company (2)	<u>7,300,819</u>
Adjustment to Coverage Allowance	<u><u>\$ (1,206,748)</u></u>

**Notes:**

(1) Refer to Schedule TSC-11.

(2) Per Schedule WEE-4



THE NARRAGANSETT BAY COMMISSION

Analysis of Annual Debt Service and Required Rate Increases  
Associated with Tax-Exempt Commercial Paper Financing Alternative  
For the Period FY 2004 through FY 2009

	FY 2004	FY 2005	Fy 2004-05 Average	FY 2006	FY 2007	FY 2008	FY 2009
Rate Year Operating Expenses per NBC	\$ 26,616,525	\$ 26,616,525	\$ 26,616,525	\$ 26,616,525	\$ 26,616,525	\$ 26,616,525	\$ 26,616,525
Less: 2003 Carryforward	(2,025,910)	(2,025,910)	(2,025,910)	-	-	-	-
Less: Division Adjustments to Oper. Expenses	<u>(956,430)</u>	<u>(956,430)</u>	<u>(956,430)</u>	<u>(956,430)</u>	<u>(956,430)</u>	<u>(956,430)</u>	<u>(956,430)</u>
Revenue Requirement before Debt Service	\$ 23,634,185	\$ 23,634,185	\$ 23,634,185	\$ 25,660,095	\$ 25,660,095	\$ 25,660,095	\$ 25,660,095
SRF Debt Service (1)	17,773,930	21,393,007	19,583,469	25,763,876	30,282,170	34,596,023	37,681,333
TECP Debt Service (1)	<u>1,669,560</u>	<u>2,983,279</u>	<u>2,326,420</u>	<u>4,386,260</u>	<u>4,779,133</u>	<u>2,987,797</u>	<u>952,446</u>
Total Debt Service	\$ 19,443,490	\$ 24,376,286	\$ 21,909,888	\$ 30,150,136	\$ 35,061,303	\$ 37,583,820	\$ 38,633,779
Coverage Requirements (2)	<u>\$ 4,860,873</u>	<u>\$ 6,094,072</u>	<u>\$ 6,094,072</u>	<u>\$ 7,537,534</u>	<u>\$ 8,765,326</u>	<u>\$ 9,395,955</u>	<u>\$ 9,658,445</u>
Total Expenses	\$ 47,938,547	\$ 54,104,542	\$ 51,638,144	\$ 63,347,765	\$ 69,486,724	\$ 72,639,870	\$ 73,952,319
Operating Reserve	<u>384,901</u>	<u>384,901</u>	<u>384,901</u>	<u>384,901</u>	<u>384,901</u>	<u>384,901</u>	<u>384,901</u>
Total Revenue Requirement	\$ 48,323,449	\$ 54,489,444	\$ 52,023,046	\$ 63,732,666	\$ 69,871,625	\$ 73,024,771	\$ 74,337,220
Prior Year Revenue	\$ 44,451,213	\$ 48,323,449	\$ 44,451,213	\$ 52,023,046	\$ 63,732,666	\$ 69,871,625	\$ 73,024,771
Percentage Increase	8.71%	12.76%	17.03%	22.51%	9.63%	4.51%	1.80%

Notes:

(1) Per response to Division data request

(2) Equal to 25% of debt service except amount for FY 2004-05 Average equals 25% of higher amount in FY 2005.

THE NARRAGANSETT BAY COMMISSION

Calculation of Uniform Percentage Increase in Rates  
Required to Generate Additional Revenues  
Rate Year Ending June 30, 2004

Overall Revenue Increase Required (1)	<u><u>\$ 7,571,833</u></u>
Revenues from Services Subject to Increase (2)	
Flat Fees-Residential	7,699,246
Measured Fees-Residential	14,945,977
Flat Fees-Commercial and Industrial	4,972,261
Measured Fees-Commercial	11,807,677
Measured Fees-Industrial	2,246,872
Discharge Permit Fees	1,084,693
Connection Permit Fees	66,156
BOD/TSS Surcharge	146,898
Septage Fees	<u>741,233</u>
Total Revenues from Services Subject to Increase	<u><u>43,711,013</u></u>
Uniform Percentage Increase	<u><u>17.32%</u></u>

Notes:

(1) Per Schedule TSC-1.

(2) Per Schedule WEE-4

THE NARRAGANSETT BAY COMMISSION

Calculation of Proposed Rates and  
Proof of Revenues at Proposed Rates  
Rate Year Ending June 30, 2004

	Current Rate	Percent Increase	Proposed Rate	Billing Units (1)	Revenue at Proposed Rates
<b>Flat Fees</b>					
Residential	\$ 68.24	17.32%	\$ 80.00	112,831	\$ 9,026,480
<u>Commercial &amp; Industrial</u>					
Meter Size					
5/8"	152.27	17.32%	179.00	3,828	685,212
3/4"	228.41	17.32%	268.00	880	235,840
1"	380.68	17.32%	447.00	1,045	467,115
1.5"	761.34	17.32%	893.00	832	742,976
2"	1,218.15	17.32%	1,429.00	1,799	2,570,771
3"	2,284.03	17.32%	2,680.00	73	195,640
4"	3,806.71	17.32%	4,466.00	51	227,766
6"	7,613.42	17.32%	8,932.00	57	509,124
8"	12,181.48	17.32%	14,291.00	13	185,783
10"	17,510.88	17.32%	20,544.00	1	20,544
Total Commercial & Industrial Flat Fees					\$ 5,840,771
<b>Measured Fees</b>					
Residential	1.40	17.32%	1.640	10,689,623	17,530,982
Commercial	2.03	17.32%	2.380	5,825,507	13,864,707
Industrial (3)	1.31	17.32%	1.530	1,719,119	2,630,252
Total Measured Fees					\$ 34,025,940
<b>Other Revenue</b>					
Discharge Permit Fees	1,084,693	17.32%			1,272,562
Connection Permit Fees	66,156	17.32%			77,614
BOD/TSS Surcharge	146,898	17.32%			172,341
Septage Fees	741,233	17.32%			869,615
	2,038,980				\$ 2,392,131
<b>Total Service Revenue</b>					\$ 51,285,323
Target Revenue (2)					51,282,846
Variance					\$ 2,477

Notes:

- (1) Per Schedule WEE-34
- (2) Per Schedule TSC-12. Target equals revenue at present rates plus required increase.
- (3) Rates have been adjusted down by \$0.01 to minimize variance.

**BEFORE THE  
PUBLIC UTILITIES COMMISSION  
OF RHODE ISLAND**

<b>THE NARRAGANSETT</b>	)	<b>DOCKET NO. 3483</b>
<b>BAY COMMISSION</b>	)	

**SCHEDULES ACCOMPANYING THE  
SURREBUTTAL TESTIMONY  
OF  
THOMAS S. CATLIN**

**ON BEHALF OF THE  
DIVISION OF PUBLIC UTILITIES AND CARRIERS**

**MARCH 2003**

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**EXETER**

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